



**ARKANSAS INSURANCE DEPARTMENT  
LEGAL DIVISION**

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**RULE AND REGULATION 36  
INVESTMENTS IN MEDIUM GRADE AND LOWER GRADE  
OBLIGATIONS FOR DOMESTIC ARKANSAS INSURERS**

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**SECTION 1. PURPOSE.** The purposes of this Regulation include 050tecti4 the interests of the Arkansas insurance -buying public by establishing limitations on the concentration of medium grade and lower grade obligations in which a domestic Arkansas insurer and others can invest; and implementing Ark. Code Ann. §§23-63-801, et seq. in pertinent part, by specifying certain allowable investments of domestic Arkansas insurers and others as to investments in medium and lower grade obligations.

The Rule and Regulation is necessary to avoid undesirable results when market conditions and other market variables adversely affect domestic insurers having a high concentration of these investments. Accordingly, a limitation on the percentage of total admitted assets that a domestic insurer may prudently invest in such obligations is reasonable, necessary and required in order to carry out the Department's solvency responsibilities under the Insurance Code. While this Regulation will leave all affected domestic insurers and others with authority to invest a substantial portion of their assets in medium grade and lower grade obligations, the prudent management of the attendant risks will remain an essential element of such investing.

**SECTION 2. AUTHORITY AND SCOPE.** The Commissioner is promulgating this Rule pursuant to his authority under Ark. Code Ann. §23-61-108; §§23-63-601, et seq. as to insurer assets generally; §§23-63-801, et seq. as to insurer investments generally; and including but not limited to the following types of domestic / insurers or corporations: §§23-70-101, et seq. as to reciprocal insurers; §§23-71-101, et seq. as to stipulated premium plan insurers; §§23-72-101, et seq. as to mutual assessment life and disability insurers; §§23-73-101, et seq. as to farmers' mutual aid associations; §23-75-113, as to hospitals and medical service corporations; §23-76-117 and §23-76-125, as to health maintenance organizations; §§23-94-101, et seq. as to risk retention groups; §§25-15-201, et seq. under the Administrative Procedure Act; and other applicable laws or rules. This Rule is intended to apply to all authorized domestic insurers holding an Arkansas Certificate of Authority; including domestic stock and mutual insurers, domestic risk retention groups, domestic hospital and medical service corporations, domestic health maintenance organizations, domestic farmers, mutual aid associations, and domestic reciprocal and stipulated premium plan insurers.

This Rule is not intended to apply to foreign farmers, mutual aid associations; domestic or foreign fraternal benefit societies; foreign reciprocal or stipulated premium plan insurers; foreign or alien insurers; foreign or alien hospital or medical service corporations; foreign or alien health maintenance organizations; or foreign or alien risk retention groups.

SECTION 3. EFFECTIVE DATE. The effective date of this Rule and Regulation shall be **August 1, 1994**, after filing with the Arkansas Secretary of State and the Arkansas State Library, pursuant to Ark. Code Ann. §§25-15-201, et seq., as amended by Act 1106 of 1993.

SECTION 4. DEFINITIONS. As used in this Regulation:

- A. "Medium grade obligations" means obligations which are rated three (3) by the Securities Valuation Office of the National Association of Insurance Commissioners ("NAIC").
- B. "Lower grade obligations" means obligations which are rated four (4), five (5) or six (6) by the Securities Valuation Office of the NAIC.
- C. "Admitted assets" means the amount thereof as of the last day of the most recently concluded annual statement year, computed in the same manner as "admitted assets" in Ark. Code Ann. §§23-63-601, et seq., as reported in the insurer's annual statement, per the NAIC convention blank.
- D. "Aggregate amount" of medium grade and lower grade obligations means the aggregate statutory statement value thereof.
- E. "Institution" means a corporation, a joint-stock company, an association, a trust, a business partnership, a business joint venture or similar entity.

SECTION 5. PROVISIONS. A. On and after the effective date of this Rule, no domestic insurer shall acquire, directly or indirectly, any medium grade or lower grade obligation of any institution if, after giving effect to any such acquisition, the aggregate amount of all medium grade and lower grade obligations then held by the domestic insurer would exceed twenty percent (20%) of its admitted assets, provided that:

- (1) no more than ten percent (10%) of its admitted assets consists of obligations rated four (4), five (5) or six (6) by the Securities Valuation Office; and
  - (2) no more than three percent (3%) of its admitted assets consists of obligations rated five (5) or six (6) by the Securities Valuation Office; and
  - (3) no more than one percent (1%) of its admitted assets consists of obligations rated six (6) by the Securities Valuation Office. Attaining or exceeding the limit of any one (1) category shall not preclude an insurer from acquiring obligations in other categories subject to the specific and multi-category limits.
- B. No domestic insurer may invest more than an aggregate of one percent (1%) of its admitted assets in medium grade obligations issued, guaranteed or insured by any one institution, nor may it invest more than one half of one percent (.5%) of its admitted assets in lower grade obligations issued, guaranteed or insured by any one institution. In no event, however, may a domestic insurer invest more than one percent (1%) of its admitted assets in any medium or lower grade obligations issued, guaranteed or insured by any one institution.
  - C. Nothing contained in this Regulation shall prohibit a domestic insurer from acquiring any obligations which it has committed to acquire if the insurer would have been permitted to acquire that obligation pursuant to this Regulation on the date on which such insurer committed to purchase that obligation.
  - D. Notwithstanding the foregoing, a domestic insurer may acquire an obligation of an institution in which the insurer already has one or more obligations, if the obligation is acquired in order to protect an investment previously made in the obligations of the institution; provided that all such acquired obligations shall not exceed one-half of one percent (.5%) of the insurer's admitted assets.
  - E. Nothing contained in this Regulation shall prohibit a domestic insurer from acquiring an obligation as a result of a restructuring of a medium or lower grade obligation already held.
  - F. Nothing contained in this Regulation shall require a domestic insurer to sell or otherwise dispose of any obligation legally acquired prior to the effective date of this Regulation although insurers are encouraged to gradually replace such securities until full compliance with this Rule and Regulation is met.



- G. The Board of Directors of any domestic insurance company which acquires or invests, directly or indirectly, more than two percent (2%) of its admitted assets in medium grade and lower grade obligations of any institution, shall adopt a written plan for the making of such investments. The plan, in addition to guidelines with respect to the quality of the issues invested in, shall contain diversification standards including, but not limited to, standards for issuer, industry, duration, liquidity and geographic location. Domestic insurers shall file such plans with the Commissioner within one hundred and twenty (120) days after the effective date of this Rule, absent obtaining an extension from the Commissioner for good cause shown; and shall promptly file any amendments to the plan subsequent to this initial filing.

SECTION 6. SEVERABILITY. Any section or provision of this Rule held by a court to be invalid or unconstitutional will not affect the validity of any other section or provision of this Rule.

(signed by Commissioner Douglass)

Lee Douglass  
Insurance Commissioner  
State of Arkansas

July 21, 1994

Date